

## The Two Koreas

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2 August 1976

I. The Two Koreas

South Korea

The present form of government dates from 1972, when Pak scrapped the democratic constitution.

He was motivated by concern over:

- The growing strength of the opposition New Democratic Party. In the elections of April 1971 his opponent, Kim Tae Chung, won 45% of the popular vote.
- Developing signs of a return to the faction-ridden politics that preceded the military coup of 1961.
- The prospects of diminishing support from the United States. His worries here stemmed first, from the 1969 Nixon Doctrine, then, from the developing Washington-Peking relationship.
- His belief that the ROK would be at a serious disadvantage in talks with a monolithic North if firm controls were not imposed on the domestic scene.

Under the present constitution, the president

- can serve any number of terms

- controls the national assembly
  - has sweeping emergency powers which Pak has used extensively. The best known of the Emergency Measures -- EM 9 -- prohibits public criticism of the president, government policy, or EM 9 itself.
- Pak's government is very much a one-man show
- It rests ultimately on the loyalty of the military, but the military do not themselves play a role in government.
  - To keep him in touch with what's going on, Pak depends on his Blue House staff and a handful of close advisers. Right now, his most important advisers are Presidential Secretary, Kim Chong-you, and the Head of the KCIA, Sin Chik-su.
  - Professionalism has become very important at all levels of government -- the economic ministries are run by economists, the legal ministries by lawyers and so forth. Expertise does play an important part in the decision-making process. But Pak makes the decisions. And once he has, his advisers, however professional, tend to tell him what he wants to hear.
  - Advisers and others who show signs of becoming too prominent or ambitious are quickly sidelined. This has been the fate of civilians like Kim Chong-pil --

former head of the CIA and until recently Prime Minister. And of senior military like General Yun Pil-yong, former head of the capital security command.

The national police and the KCIA are the principal instrumentalities of internal control. Both of them, particularly the KCIA, also play an important part in keeping the President informed.

-- The KCIA's role is pervasive. It monitors and, on occasion, influences the activities of opposition political elements, student groups, and the media.

(See attached page 3a only in response to questions.)

But Pak's government rests on a good deal more than pervasive controls and the ultimate support of the military.

-- Because fear of the North is still very strong, Pak's belief that stability and order come first is widely shared.

-- The expanding economy has provided increasing benefits for most of the population.

-- The military, the bureaucracy, and the major business elements are generally satisfied that Pak's leadership has served ROK interests and their own.

Many, even among his supporters, feel that Pak's authoritarianism is too rigid. And when he seemed on the verge of a break with Japan

To Be Used Only in Response to Questions

1. The ROK is as aware as any other sophisticated foreign government of the role of public relations activities in developing favorable attitudes among the US public and the executive and legislative branches. The Koreans take this effort particularly seriously because of the importance they attach to our support as their major ally. Accordingly all members of their diplomatic mission here -- including the KCIA -- are expected to participate in the effort. Recent allegations concerning ROK and KCIA congressional connections are being investigated by the Department of Justice and the FBI.

2. The ROK also regards it as very important to retain the loyalty and active support of the members of the ethnic Korean community in the United States, most of whom came here after the Korean war. Two of the largest centers of this community are in the Los Angeles area, where over 60,000 Koreans live, and the Washington area with close to 30,000.

25X1

25X1

3. Moon Sun-myung. Although there have been many allegations that the ROKG or the KCIA supports or directs the activities of Moon and his church, we have no real evidence that this is the case. The ROK has vigorously denied any such connection.

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in the fall of 1974, it appeared possible that he would lose the support of the major interest groups. But that crisis passed. And the general view among the elite remains that South Korea cannot afford the disorder, immobilism, and inefficiency they associate with political party rule.

The opposition is weak and divided

- 25X6      -- The political opposition centered in the New Democratic Party is fractious [ ] Pak and the KCIA are adept at manipulating these weaknesses.
- The students, the ground troops of the opposition, are easily intimidated and their ranks require renewal every graduation day.
- The most principled and serious opposition comes from the Christians. Although a distinct minority (some 13% of the population), they are influential because of their important role in the pre-war independence movement and because of the number and quality of their educational institutions. But nevertheless they are a minority, and, for the most part, a very cautious one. Many of their leaders believe strongly that the church should stay out of politics.
- The current trial of clergyman and others who have urged the restoration of democracy has attracted a good deal of attention in the United States. But it has failed to spark wider anti-government activity in Seoul.

The record of economic progress has been a remarkable one and President Pak is given a good deal of credit for this. In the past decade

- Real GNP has expanded at a 9% average annual rate.
- Exports have increased on an average of 30% annually. Industrial output has grown by roughly 25% annually.
- The manufacturing share of GNP has increased from 12% in 1965 to 28% in 1975. Progress has been especially marked in shipbuilding, petrochemicals, petroleum refining, and most consumer goods.
- Since the early 1970s, exports of manufactures have shot up at a 60% annual rate.

As everywhere, the benefits have been unevenly distributed and standards of living are not as high as in Taiwan, for example. But, to a significant degree, the results of economic progress have filtered down to the factory worker and the peasant.

- Per capita personal income has increased almost five-fold since 1966.
- Farmers have benefitted from higher agricultural prices and adequate supplies of fertilizers.
- Wages are now eight times the 1965 level. However, roughly two-thirds of the gain has been eaten up by inflation; taxes have also made major inroads into take-home pay.

- But in 1976, if the government can contain the inflation rate at the current 10%, real income will increase about 5%.

Because it is heavily export oriented, the ROK economy was badly hurt by the world-wide slump.

- The economy is particularly closely linked with ours and Japan's. We and the Japanese are the ROK's principal trading partners, suppliers of technology, and sources of foreign capital.
- South Korea was also badly hit by the oil price increase. It is almost entirely dependent on imports for its energy sources.

However, South Korea is now leading almost all of the non-OPEC LDC's in the pace of its economic recovery:

- Real growth was 8% in 1975.
- It will probably exceed 9% in 1976.
- In 1975 with export volume up 20%, industrial production expanded by 19%.
- Industrial unemployment fell from 10% in early 1975 to about 6% in the first quarter of 1976.
- This year, so far, export volume is up 65% from the first half of 1975. Consumer goods, especially textiles and footwear, are in the lead.

Overseas sales will probably not maintain this pace in the next six months.



Trade barriers in importing countries -- especially textile quotas -- will almost certainly have a restraining effect.

-- Production capacity limits will also operate as a restraint.

-- The present annual rate of increase in industrial production -- 36% -- probably cannot be maintained.

In addition to commodity exports, overseas construction will be playing an increasingly important part in the ROK balance of payments.

-- New contracts, almost all in the Middle East, should reach \$2 billion this year, more than double 1975.

The extraordinary surge in exports of goods and services has substantially narrowed Seoul's balance-of-payments gap and bolstered foreign lender confidence.

-- Imports have been held down thus far by high inventories, bumper crops in 1974 and 1975, and government policies.

-- Import growth is likely in the second half, however. This will probably bring the total import bill to \$8 billion in 1976 compared with \$6.5 billion in 1975.

-- With exports likely to reach \$7.5 billion, the current account deficit should go at least as low as \$1.2 billion compared with \$2 billion in 1974 and 1975.

In 1976, Seoul should be able to cover its financial gap -- about \$1.8 billion -- comfortably from

- new medium and long-term credits, with Western Europe a notably larger contributor this year.
- new direct investments.
- a reduced interest burden in the current account as the result of repayments of short-term credits.

#### North Korea

Like the ROK government, the North Korean government is authoritarian and dominated by a single individual

- Unlike the ROK, it is totalitarian as well as authoritarian.
- The society is remarkably closed, perhaps uniquely so.
- We know very little about the political pecking order and not much more about internal policy processes and problems.

Nevertheless we have been able to perceive some of the political repercussions of economic problems. We also see signs of a succession problem.

Late in 1972 Kim instituted a series of changes resulting in

- a new constitution
- a consolidated government structure
- a purged and reorganized party.

All of these changes, and the mass campaign that accompanied them, seemed to be linked to the difficulties North Korea was encountering in carrying out its economic plans. They also seemed to be intended to increase Kim's personal control and intensify the extraordinary adulation with which he is treated.

The succession problem applies to Kim Il-sung himself -- he is 63 and not very well. It also applies to Kim's small group of long-time associates -- like him veterans of the post World War II period.

Over the years, Kim has given high position to members of his own family to a degree unusual in a Communist state. It now appears that he wants his son Kim Chong-il -- aged 36 -- to succeed him.

We believe the President has been pursuing this effort for at least the last three years. But we do not know how far the campaign has gone.

- Within Party circles it appears that Kim Chong-il is being given authority and prestige almost equal to his father's.
- We believe that frequent media references to the Party Center are really references to Kim Chong-il. But he is never mentioned by name in the press or on the radio as the President's successor or in any other capacity.
- There is some evidence of at least passive resistance in the party to the idea that Kim Chong-il should succeed his father.

We have no clues as to which of the middle level figures will rise to the top to replace the President's immediate subordinates.

-- This spring the prime minister and the defense minister resigned because of ill health. But they were replaced by men nearly as old as they.

Meanwhile the postponement of the Sixth Party Congress from 1976 to 1977 suggests that important policy and personnel issues remain unresolved.

Although economic shortfalls frequently appear to be a source of political tension, North Korea, like South Korea, ranks among the more advanced of the LDCs. Measuring progress is difficult because North Korean statistics are highly suspect and our independent data is very limited. Our best judgment is that

- Industrial production has grown at an annual rate of roughly 10 percent over the past decade or so.
- Agricultural production has kept pace with population expansion.
- The two Koreas produce roughly the same amount on a per capita basis.

Living standards in North Korea are no better, and perhaps are more austere, than in the South.

- Supplies of food and clothing are adequate but not abundant.

-- Grain is still being rationed.

-- Housing is tight despite substantial progress since 1955.

The North has drawn on superior natural resources -- coal, iron ore, and hydroelectric power to develop an industrial base.

-- Its industrial output consists primarily of steel, nonferrous metals, fertilizer, cement, and heavy machinery.

-- Light industry barely keeps pace with subsistence needs.

-- Development of a petrochemical industry is underway.

North Korea's most remarkable industrial achievements, however, have been in the field of military production. We will be returning to this subject later when we discuss the military balance on the peninsula. The priority given to military production, however, obviously affects the pace of development in the civilian industrial sector.

-- We know that under the current Six Year Plan, construction of key civilian industrial facilities is far behind schedule.

-- Even though a number of factors are responsible, including foreign exchange difficulties, the demands of the military machine building sector on domestic investment resources have also played a significant part in the shortfall.

Kim Il-sung talks constantly of self-sufficiency. North Korea's success at industrialization, however, has fluctuated with its ability to acquire foreign industrial equipment and technology.

- The USSR and China contributed to the success of the Five-Year Plan, completed in 1960. This created a rudimentary industrial base emphasizing heavy industry. But in the early '60s the USSR suspended aid for several years because North Korea sided with Peking in the Sino-Soviet dispute. This was a major factor in delaying the completion of the ambitious Seven Year Plan.
- With the initiation of the current Six-Year Plan in 1971, Pyongyang began trying to reduce its dependence on the USSR and China by purchasing industrial plants and related equipment from Western Europe and Japan.
- Since 1970, such purchases have amounted to more than \$600 million.

However, beginning in 1974, North Korea began to encounter serious balance of payments problems.

- In that year, it was unable to finance its hard currency deficit and became the first Communist country to default on a large scale with Western creditors.

- As a result of persisting massive defaults, Japan and a number of West European countries have suspended further credit guarantees for North Korea.
- Some suppliers have stopped equipment deliveries until back payments are made.
- Other suppliers are demanding substantial down payments for new purchases.
- North Korea has been unable to obtain hard currency relief from the Communist countries.

There is some evidence that Pyongyang is seeking additional aid from the Soviet Union, the only feasible Communist supplier for most of the high technology equipment it wants.

- Even if the USSR were to respond fully to North Korean requests, it would be unable to provide all of the types of equipment and technology that North Korea has been seeking in the West.
- Thus far, the USSR has done little more than declare a five year moratorium on North Korea's repayment of Soviet credits.
- In a new agreement signed in February 1976 no new aid projects were mentioned. Nevertheless, with Soviet exports including equipment for plants already under construction, the level of Soviet-North Korean trade reportedly will be 40% more in the next five years than during 1971-75.

- There have also been reports of some additional Chinese aid in the form of cancellation of past debts and perhaps some credits for additional petroleum purchases.
- In general, Sino-Soviet aid committed thus far appears too meager to enable North Korea to meet the major goals of its next long-term plan which reportedly ends in 1983.

## II. The State of Play Between Them

For the most of the time since the end of the Korean War, North and South have confronted each other across the DMZ with intense hostility.

Tension reached its peak in the middle and late 'sixties.

This was the period of

- North Korean efforts to organize an underground Marxist-Leninist party in the South.
  - Frequent clashes in the DMZ.
  - Large scale guerrilla raids into the South, culminating in the raid on the Blue House and in a 120-man landing on the East Coast.
  - The seizure of the Pueblo and the EC-121 shootdown.
- In the late 'sixties, however, North Korean tactics changed
- Guerrilla raids ceased and military officers most directly responsible for this campaign were purged.



-- Infiltration declined.

-- And the number of DMZ incidents was markedly reduced.

The change could have reflected merely the realization that violent tactics had been counter-productive -- strengthening Pak's position and the unity of South Koreans in hostility to the North. But whether or not there was a connection, the alteration in North Korean tactics smoothed the way for the more fundamental shift in the relations between the two Koreas that took place in 1971-1972.

Primarily, this shift -- the opening of the North South dialogue -- was precipitated by international developments.

A number of events

-- the enunciation of the Nixon doctrine

-- the events culminating in the Nixon visit to Peking

-- the Nixon Brezhnev visits

were read in much the same way by both North and South. Both saw a disturbing possibility that deals affecting them might be made without their participation. Accordingly, each began to show by various signals and proposals a strong interest in talking to the other.

In 1971 and 1972, the prospects for genuine and long-lasting reduction of tensions on the peninsula seemed better than ever before or since.

- Each of the two governments abandoned its long standing refusal to deal with representatives of the other.
- Machinery was established through which contact could be made and agreement reached -- the Red Cross talks and the South North Coordinating Committee.
- Representatives of the South were warmly received in Pyongyang, as were representatives of the North in Seoul.

The basic stance of each side remained much the same

- The North insisted on the abrogation of South Korea's treaties with the United States and Japan and the withdrawal of US forces. Its reunification proposals called for rapid movement into a broad political conference arrangement and a formal confederation.
- The South was unwilling to contemplate any early withdrawal of the protection provided by external ties. It favored a more gradual step by step approach to reunification beginning with family visits and economic exchanges.

Nevertheless, there was considerably less rigidity in the way each side put forward its proposals. The change in atmosphere was symbolized by the July 4 Joint Communique. The two sides agreed that they would refrain from slandering each other and

from armed provocations while they were moving forward toward reunification which would take place

- independently and without outside interference
- peacefully
- and on the basis of "great national unity transcending ideology."

Beginning early in 1973, however, the trend was reversed. The last plenary meeting of the South North Coordinating Committee took place in June 1973; two years later, in June 1975, the lower level meetings that had continued intermittently were suspended by the North.

Although the dialogue has been, in effect, terminated, there has been considerable carryover from this period in the behavior patterns of both sides.

- Neither has reverted to the earlier position that the other government is a bandit regime with which in principle there can be no contact.
- Contacts have not been wholly broken off - working level Red Cross talks take place every month or two even though they are little more than propaganda exchanges.
- The hotline remains in being.
- The North has not resumed guerrilla tactics in its campaign against the South, although it continues its infiltration efforts.

Most significantly in terms of current problems North Korea's campaign to improve its international standing at the expense of South Korea has continued and has met with increasing success.

- In 1969 Pyongyang had diplomatic relations with only 28 countries, half of them Communist. At last count this summer it had relations with 88 as compared with Seoul's 93 (both countries have accepted dual representation -- 45 countries have relations with both).
- North Korea has been accepted as a member of the non-aligned movement from which it derives considerable support in the General Assembly. Last year, of the 54 states voting for the pro-Pyongyang resolution, 40 were non-aligned.

The General Assembly has become a principal theatre of Pyongyang's effort to establish diplomatic superiority over the South and to win wide support for their long-standing demand for US troop withdrawal. In 1975, the pro-Pyongyang resolution called for

- dissolving the UN command
- replacing the armistice agreement by a peace treaty negotiated by the "real parties to the armistice agreement" - that is, the United States, the PRC, North Korea, but not South Korea.

The pro-ROK resolution called upon all parties concerned to negotiate a replacement for the armistice agreement.

Both resolutions passed, the pro-North resolution won 54 votes (43 opposed, 42 abstained), the pro-ROK 59 (51 opposed, 29 abstained).

This year, there is as yet no sign that North Korea will abandon confrontation tactics in the UN.

- The United States, Seoul's other strong supporters, and many of the non-aligned would prefer a consensus resolution like the one passed in 1973 which endorsed continued North/South efforts to reduce tensions.
- But in 1973 the PRC played an important role in making the consensus resolution possible. Since then, it has shown no inclination to repeat this role.

The PRC in fact, and the USSR as well, share with the other major powers involved - ourselves and the Japanese - a conscious stake in continued avoidance of major hostilities on the peninsula. But, when problems of a lesser nature are involved, neither Moscow nor Peking seems prepared to put pressure in Pyongyang to do things it is obviously not prepared to do. They are restrained from doing so because

- they know that a fiercely independent Pyongyang will normally see no reason for adjusting its policies to their demands
- and they know that Pyongyang's independence has been reinforced by its relatively recently acquired ability to mobilize third world support on its own and even more by the opportunities Sino-Soviet rivalry affords North

Korea to balance its two allies off against each other.

This is not to say that Pyongyang can count on Soviet or PRC support when the overriding interests of either dictate a contrary course

-- Neither seems prepared to stretch itself to help Pyongyang overcome its present economic difficulties -- and each has accepted with apparent equanimity periods of quite troubled relationships with Pyongyang brought on by aid or other policies adopted by Moscow or Peking for its own reasons but deeply resented in Pyongyang.

Its uncertainty over the response of its allies -- especially the amount of assistance they would provide -- is we believe an important factor in deterring North Korea from initiating hostilities. In the military briefing to follow, we will elaborate on this point.